

Panel Discussion: International Trends in Standards and Impact on Our Work

Describing this panel as the “best and brightest on the subject,” moderator Richard Klarberg from the Council on Accreditation introduced panel members, who would address international trends in standards, including civil society accountability, microfinancing institutions, capacity building to connect nonprofits with donors and resources worldwide, and accreditation and standards in the Asian Basin. He said that standards are all about accountability, strategic plans, responsibility, and sustainable development, topics of key interest to NGOs. Again, the big question is whether NGOs can become better through standards. Mr. Klarberg called standards a “roadmap” that helps an organization answer four questions:

1. What’s your mission? Does it reflect the needs and aspirations of those you serve?
2. How is your organization governed or managed?
3. What are the services you provide and how do you provide them?
4. Can you show that the answers to questions two and three support the answer to question one?

As to whether standards-setting programs can work outside of the United States, Mr. Klarberg said likely so, with contextual accreditation that understands and embraces the uniqueness and vitality of differing organizations. The whole standards process must deal with the context in which an organization provides services—a key theme the panel would address.

Catherine Shea, International Center for Not-for-Profit Law

Ms. Shea’s organization works with local development partners to develop good laws and regulations to govern CSOs or NGOs in a number of countries. She shared her research findings on international standards-setting programs, which revealed many valuable purposes for standards. Ms. Shea’s presentation addressed three interrelated questions: (1) What would a wider dispersion of standard-setting programs do in the international arena? (2) What are the implications of standards programs, particularly for small or new organizations? (3) What consequences should come about for not meeting a standard (i.e., how to make standards “have teeth” internationally)?

Several models in use. Ms. Shea described two types of international standards-setting programs that are being used.

- One is a certification model that has government recognition attached to its use. Such programs are found in Australia, the Philippines, Canada, Spain, Macedonia, and several other countries. This is also beginning to happen in the United States. The U.S. Senate Committee on Finance recently held hearings on charity oversight and reform, considering a wide range of reforms to improve the accountability of the sectors, including funding to the Internal Revenue Service to support accreditation of charities.

- Another model gives “good housekeeping” seals of approval to organizations that have met certain standards of accountability, so donors can make comparisons and feel more assured about where their money is going.

Implications of standards. Standards can be useful in weeding out organizations that are sub-par; however, Ms. Shea cautioned that benign reasons might also underlie why an organization would not meet particular standards or even participate in the process. Given that NGOs are generally entrepreneurial in nature, set up perhaps to solve specific problems or crises, it may be difficult for them to meet a set of sophisticated standards, which could actually stifle their innovation. She questioned the value of creating a preference for more established groups and possibly missing the innovation that new people may bring to bear, as with the tsunami relief effort. Perhaps standards could be used to *improve or enhance* their performance rather than exclude them from participation.

How to use U.S. models in other countries. Suggestions include having targeted interventions to help countries raise their capacities, or offering “stepped” levels of acceptance, according to where an organization is in its development.

Pranav Gupta, ForeignAID.com

Mr. Gupta developed a model, or a methodical tool, for use in evaluating grassroots groups working around the world. The model was derived in part from a meeting with nonprofit executives in Kenya and India and with others. His presentation demonstrated results of the model’s application to two NGOs in Central America and Angola. Five criteria (social impact; institutional development; financial efficiency and health; accountability; and design, monitoring, and evaluation) are used to assign “grades” to certification applicants, ranging from C- to A+++ . Those whose overall score is above BB are considered ForeignAID-certified.

Evaluative criteria. The organizations were evaluated and graded, using the following criteria.

- **Social Impact.** Major factors include beneficiary participation, relevance, outputs, and outcomes. One organization examined received an AA, because it looks to beneficiaries for direction as opposed to deciding for its clients what their needs are. The other received a BB, partly for a lack of focus in use of resources.
- **Institutional Development.** Major evaluative factors in this area include legal, institutional, operational, and human resources. The first organization again received an AA, given that it has independent observers and an extensive membership base. The other received a B; its employees lack understanding of their mission, and the organization uses a top-down management structure.
- **Financial Efficiency and Health.** Factors include financial efficiency, financial growth, and financial sustainability.

- **Accountability.** Evaluative factors include financial management and accounting, transparency, and communication. The first organization received an A+, in part for its formal accounting systems and external audiences. The other received a CC, as it could produce no documentation, and had long allowed an inoperative computer system.
- **Design, Monitoring, and Evaluation.** Factors deal with having systems in place to monitor and evaluate information. This criterion presented a problem, as these organizations lacked even the basic infrastructure needed to comply.

ForeignAID.com has a database to help PVOs raise money for international projects.

Didier Thys, The Microfinance Information eXchange

The Microfinance Information exchange (MIX) was organized to examine the performance of microfinance (MF) institutions in developing countries. Its goal is to enable women at the end of chain to receive loans at reduced fees, based on getting people to invest in these funds. The premise is that if investment funds (e.g., Calvert, Taxworld) are transparent and can be “seen,” people will be more likely to invest in them, resulting in lower costs and a real impact on global poverty. Mr. Thys’ answered a series of questions, summarized below.

What’s the goal? The goal is to have a financial system that broadens access to resources and results in increased volume of transactions between investors and microfinance institutions, along with a lower cost of doing business through lower transaction costs.

What’s the problem? It is difficult to offer up comparable information for diverse entities. That is why MIX collaborates with others to derive common global reporting standards and guidelines that will help everyone along. This is coming together now in the microfinance community. MIX is seeking to reduce transaction costs by having a central point of reference, rating institutions according to the information they provide to this central authority. The more information and detail they provide, the more “diamonds” they receive as part of their rating. Customers look for four and five diamond profiles, and have really begun to use this system.

What can MIX do? MIX makes the case that there are \$2 trillion out there in socially responsible investment funds. The number of microfinancing institutions that are reporting has substantially increased over the last two years. MIX’s website offers much information to users (www.themix.org).

Mark Sidel, University of Iowa College of Law and Obermann Center for Advanced Studies

Mr. Sidel noted “a crisis of accountability” in nonprofit organizations throughout the world. His work in the Asian region revealed trends in accountability and self-regulation, with capacity-building initiatives occurring within the countries themselves. Initiatives involve voluntary and mandatory requirements, roles of government, and a range of other methods of “stunning” diversity and breadth.

Three stages of activity.

- Stage 1 is self-regulation to avoid government intervention, as is occurring in China and Vietnam, where the nonprofit sector is newer.
- Stage 2 is development of models as part of efforts to enhance organizations' accountability in the nonprofit sector through incentives, awards, and other competitive mechanisms. This is occurring in countries like Indonesia and India, according to Mr. Sidel, who said it was "exciting to see (this development) in these societies."
- Stage 3 is where the extraordinarily vibrant array of initiatives is replaced by one or two broader initiatives.

Pro's and con's. Mr. Sidel agreed that standards can serve as change agents that inspire more trust and confidence, which helps to forestall additional government regulation. However, several negatives accompany this process as well. For example, moving toward standard-setting or self-assessing mechanisms can shut out newer, more innovative little organizations, and "over-modeling"—taking one successful model and applying it for adaptation to countries—presents real concerns. Another concern is the rise of those who have assumed the role of "gatekeepers" to accredit others. Mr. Sidel questioned whether their involvement is merely a way of accreting power to themselves. Finally, overseas, where particularly American organizations are evaluating overseas nonprofit groups, care must be taken to choose mechanisms that build capacity on the ground where people *are*, rather than rely on American mechanisms to translate.

"Do standards support better organizations and strengthen them? The jury may be out on that question, but while the process of standard-setting may not support better organizations, it does support the accretion of power to the regulators."

—Mark Sidel, U. of IA College of Law and Obermann Center for Advanced Studies

Questions to Panel

A participant asked panelists if they felt confident that rating methodology takes into account sufficient diversity—given that so many factors characterize a small nonprofit, context to context—and how can their methodologies be adapted to different countries?

Mr. Gupta responded that ForeignAID.com works with evaluators who are intimately familiar with the local area and culture, as one way of ensuring that models are contextually sensitive. Their rating model can also be adapted to the local context. Given that the majority of models focus on organizational development aspects, they are somewhat comparable. Also, ForeignAID.com has an internal process it uses to ensure it is not undermining any of the organizations it evaluates by an unintended lack of sensitivity, placing of prejudice or discrimination.

Another participant asked whether anything in panelists' models could help analyze the difficult relational dynamics occurring with board leadership in developing countries.

Mr. Thys responded that many microfinance institutions fail in ratings because of relational issues, such as having a board that is family-based, is not held accountable, or lacks oversight.

Summary

The panel agreed that any effort to develop standards to address the current "crisis of accountability" must:

- Ensure that the program is locally and stakeholder-driven and is a participatory process.
- Deal with the context in which an organization provides services.
- Understand and embrace the uniqueness and vitality of differing organizations.

Standards-setting programs can likely work outside of the United States, with contextual accreditation.

"We're not rating bonds; we're looking at helping an organization expand its capacity; this is not a 'gotcha' thing. We are rather partnering with them as a management consulting firm would, so that they can benefit from knowing how best to move forward. It is not about the ratings, it's about the process an organization goes through and how they learn."

—Richard Klarberg, Council on Accreditation